

27 August 2018 | Corporate Update

Sapura Energy Berhad

Debt reduction by way of rights and RCPS-i issue

Reiterate Trading Buy

Unchanged Target Price (TP): RM1.01
(ex-TP: RM0.60)

INVESTMENT HIGHLIGHTS

- Sapura Energy proposed rights issue and RCPS-i
- Exercise to raise approximately RM4b
- Sole purpose to reduce debts, gearing and interest costs
- Company business prospects remain intact
- Current orderbook at approximately RM16.7b
- Maintain TRADING BUY at unchanged TP of RM1.01

Corporate exercise. Sapura Energy Bhd announced corporate exercise involving two main undertakings: (i) 5-for-3 rights issue of up to 9.987b new shares and; (ii) 2-for-5 rights issue of up to 2.397b RCPS-i. The rights issue for the new share will have an issue price of RM0.30 per share while the implied conversion price of the RCPS-i is RM0.41 per share.

Purpose of corporate exercise. The main purpose of these corporate exercises is to raise approximately RM4b to reduce the group's hefty borrowing of RM16.55b or 1.6x net gearing. Post debt reduction, the net gearing level is expected to be around 1.2x. In addition, this significant reduction in borrowings will also cause savings of around RM190m per year in interest costs.

Orderbook. Group orderbook is currently at RM16.7b, marking an inflection from FY18 low for the past four years. Out of these, approximately RM5.2b and RM3.8b are expected to be recognised in FY19 and FY20 respectively, while the remaining RM7.7b is to be recognised in FY21 onwards. The company's bidbook, including prospects is at USD13.1b.

Forward earnings expected to improve. Should these corporate undertakings materialise in its entirety, we expect the company's forward earnings to improve substantially – in particular from interest savings. Therefore, for FY19F in particular, we are expecting the group to return to the black. The chunk of the group earnings will stem from the upbeat offshore activity levels of the E&C segment and sustainably higher crude oil prices of the E&P segment.

Changes no earnings. We make no changes to our earnings estimates pending the take-up rate and further progress of these exercises.

RETURN STATS	
Price (24 August 2018)	RM0.42
Target Price	RM1.01
Expected Share Price Return	+140.5%
Expected Dividend Yield	+2.4%
Expected Total Return	+142.9%

STOCK INFO	
KLCI	1,808.59
Bursa / Bloomberg	5218 / SAPE MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,992.2
Market cap. (RM'm)	2,436.7
Price over NA	0.60x
52-wk price Range	RM0.41 – RM1.72
Beta (against KLCI)	1.95
3-mth Avg Daily Vol	112.7m
3-mth Avg Daily Value	RM71.4m
Major Shareholders (%)	
Sapura Holdings	15.90
PNB and its associated funds	10.49
KWAP	7.68
EPF	5.21

Maintain Trading Buy. Year-to-date, Sapura Energy's share price has declined substantially. This is despite stable crude oil prices in the tight range of USD70pb. We are of the opinion that the current broad-market sell off presents trading opportunities for investors seeking exposure in oil and gas service providers with direct upstream exposure. Although we acknowledge that Sapura Energy's profitability might still be weak due to its other underperforming segment, we believe that the share offers short term trading opportunities for investors. As such, we are maintaining our **Trading Buy** call on Sapura Energy with an unchanged target price of **RM1.01** per share.

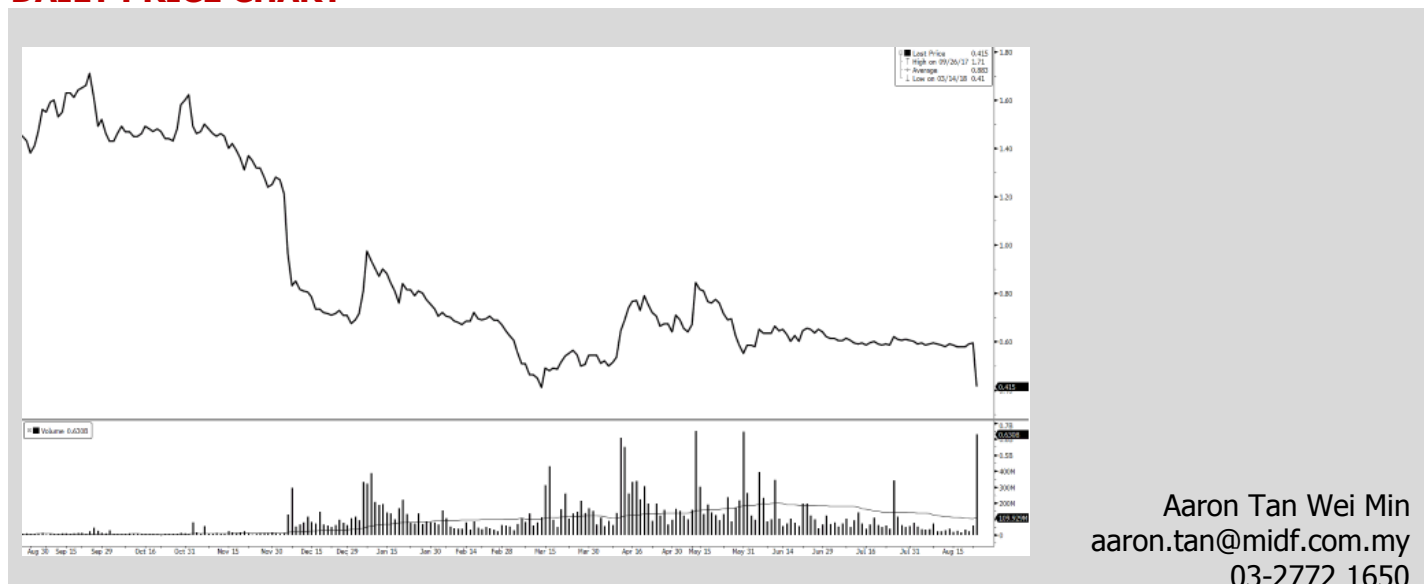


INVESTMENT STATISTICS

FYE Jan	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM m)	10,184.0	7,651.3	5,895.0	7,328.2	7551.7
EBIT (RM m)	3,070.3	943.4	395.0	887.6	902.5
Pretax Profit (RM'm)	1,408.2	667.9	-191.3	159.2	176.1
Net Profit (RM m)	-791.6	208.3	-2,323.6	105.1	135.4
Normalised Net Profit (RM m)	1,035.0	208.3	-243.0	105.1	135.4
EPS (sen)	-13.2	3.5	-42.1	1.8	2.3
EPS Growth (%)	nm	nm	nm	nm	28.9
PER (x)	nm	11.8	nm	23.4	18.1
Net Dividend (sen)	1.4	1.0	0.0	1.0	1.0
Net Dividend (%)	2.1	1.6	0.0	1.6	1.6

Source: MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.